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C O N F I D E N T I A L SECTION 01 OF 02 NEW DELHI 007426

SIPDIS

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TAGS: [PREL](#) [EAID](#) [ETRD](#) [PK](#) [BG](#) [IN](#) [GOI](#)

SUBJECT: INDIA SAYS SAFTA ON CRUISE CONTROL

REF: NEW DELHI 7395

Classified By: PolCouns Geoff Pyatt. Reasons 1.4 (B,D).

¶11. (C) Summary: The GOI is heading into the January SAARC Summit in Dhaka upbeat about having maintained an ambitious SAFTA (South Asia Free Trade Area) negotiating schedule that aims to have a document ready for member ratification by mid 2005. This optimism has prevailed despite apprehension in New Delhi over Bangladesh's SAARC chairmanship and modest expectations for immediate deliverables. As a side effect of progress on SAFTA, New Delhi is taking a low key approach to the question of most-favored nation (MFN) status with Pakistan on the assumption that a SAARC-wide FTA will "finesse" the problem away. In a November 22 meeting with PolCouns, the MEA welcomed the prospect of a USAID funded SAFTA technical assessment while emphasizing the need for outside parties to work directly with the SAARC Secretariat to avoid giving the impression of meddling. End Summary.

Running With SAFTA

¶12. (C) In a November 22 meeting with PolCouns and Poloff, MEA Joint Secretary (SAARC) V. Ashok laid out the South Asia Association for Regional Cooperation's (SAARC) ambitious calendar for getting SAFTA up and running by January 2006. Pleased with the Association's "untypical progress" so far, Ashok outlined the timeframe for SAFTA noting that the sixth ministerial meeting will be held in New Delhi December 2-4 after which, with two more sessions in Kathmandu and Male, the members expect to have a document ready for the July ministers' meeting in Dhaka. Ashok said this would leave six months for SAFTA's ratification and cabinet approval before the January 2006 target.

Compensation Only a Speed Bump

¶13. (C) While acknowledging that there are some conceptual problems associated with Dhaka's requirement that SAFTA provide compensation for revenue lost to LDCs due to freer trade, Ashok concluded that the GOI does not see this as a major "stumbling block." He noted that New Delhi came away from Bangladesh FM Morshed Khan's November 1 visit here with the impression that when Dhaka wants to move forward "technicalities will be swept under the carpet."

MFN Through the Back Door

¶14. (C) Ashok confirmed PolCouns' suggestion that the GOI appears to have become more flexible in its preference that MFN status with Pakistan be a part of any Iran-Pakistan-India pipeline deal (reftel). He explained that the view in New Delhi is that if the members agree to SAFTA as it is on paper now, "MFN will come automatically." MFN has become symbolically significant in the Indo-Pak relationship, he suggested, while noting that during the course of SAFTA discussions, he has not heard any indication that Islamabad will try to withhold most favored nation status.

Negative List Won't Trip Up, Either

¶15. (C) His optimism unflagging, Ashok was confident that the question of negative lists would also be successfully resolved. He explained that SAARC members have divided into two groups, one of larger economies (India, Pakistan, Sri Lanka) for which the Negative List must be around 20 percent, and the second for which it can be slightly larger (in the 23-24%) in the final SAFTA framework. In keeping with his upbeat theme, Ashok commented that the trend of regional integration was irreversible, and noted wistfully that his position used to be considered a relaxing job. Further to his point, the Joint Secretary added that his office will be moved out of its current crumbling annex location to the Ministry's main building, as indication of SAARC's upgraded status within the MEA bureaucracy.
Deliverables in Dhaka

¶16. (C) While Ashok did not expect any significant SAARC developments during the Dhaka Summit, he noted a number of pending agreements, one of which will likely be signed in January. SAARC members have nearly completed a Customs

Mutual Assistance Agreement, Ashok said, but have had some difficulty reconciling the draft SAARC document with the more comprehensive model provided by the World Customs Organization, of which all are signatories. Also in the works are SAARC Arbitration Rules, a Multilateral Double Taxation Treaty, and a Promotion and Protection of Investment Agreement. Ashok expressed confidence that the BDG would be successful in the chairmanship, noting that during Khan's visit, he conveyed that Dhaka was eager to perform well as SAARC president.

Room For One More?

17. (C) PolCouns noted the USG's discreet support for Afghanistan's inclusion in SAARC and asked if there had been any movement in that direction. Ashok explained that the GOI would welcome the addition if Kabul applies for membership, and there is consensus in favor of it. He noted that Pakistan had adopted a similar position, and suggested this would be a fruitful area for further work by SAARC members.

SAFTA Support

18. (C) PolCouns shared with the MEA USAID/Washington's Scope of Work on technical assistance for SAFTA implementation, noting that this project reflects broad US support for South Asian regional integration. Ashok accepted the paper and noted, as he recently told a World Bank representative who visited him on the same subject, that the GOI "would be delighted" to have such support, but outside parties ought to work with the SAARC Secretariat to avoid giving the impression of "dictating to" the members. He advised that it would be best for the USAID team to first approach the SAARC Secretariat to get ideas from them, thereby making it a SAARC

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initiative.

In Tatas We Trust

19. (C) Pinning his bilateral hopes on the Tata Corporation's proposed USD 2 billion investment in Bangladesh, Ashok commented that it is a "way to short-circuit governmental shortcomings" in the India-Bangladesh relationship. He noted that a company like Tata could be more effective there, as opposed to the "bossy government of India," and predicted that SAFTA would compel the BDG to implement measures it has been unwilling to embrace bilaterally.

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